

but this was the first time the DCE's left the 7 DECEMBER 1986 4:30 p.m.

Chm

DCI TESTIMONY BEFORE THE HOUSE APPROPRIATIONS COMMITTEE
8 DECEMBER 1986

AS YOU KNOW, I TESTIFIED BEFORE OUR TWO CONGRESSIONAL OVERSIGHT COMMITTEES ON 21 NOVEMBER. IT WASN'T UNTIL THREE DAYS LATER, AT THE END OF THE DAY ON MONDAY, THAT I LEARNED FROM THE PRESIDENT'S CHIEF OF STAFF THAT THE ATTORNEY GENERAL HAD UNCOVERED GOOD EVIDENCE THAT SOME OF THE IRANIAN FUNDS MADE AVAILABLE FOR ARMS PURCHASES MAY HAVE BEEN DIVERTED TO THE CONTRAS. AS YOU KNOW, ON THE NEXT DAY THE PRESIDENT ANNOUNCED THAT ADMIRAL POINDEXTER AND LIEUTENANT COLONEL NORTH HAD RESIGNED FROM THE NSC STAFF.

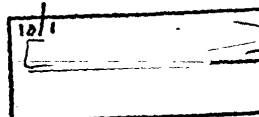
RIGHT NOW, MY INSPECTOR GENERAL IS PULLING TOGETHER A BROAD AND SYSTEMATIC REPORT ON CIA'S INVOLVEMENT IN THE IRANIAN OPERATION. BUT I CAN TELL YOU THAT THE TESTIMONY I GAVE OUR OVERSIGHT COMMITTEES ON 21 NOVEMBER REMAINS ACCURATE ON WHAT WE KNEW AT THAT TIME. I CAN ALSO TELL YOU THAT CIA WAS NOT INVOLVED IN ANY DIVERSION OF IRANIAN FUNDS.

BEFORE I GIVE YOU THE ESSENTIALS OF CIA'S INVOLVEMENT, I'D LIKE TO SAY SOMETHING ABOUT THE RATIONALE BEHIND THE OPERATION. OVER THE LAST FIVE YEARS, MUCH THOUGHT AND EFFORT HAS BEEN DEVOTED TO HOW WE MIGHT DEVELOP CONTACTS AND RELATIONSHIPS WHICH WOULD PROVIDE A BETTER UNDERSTANDING OF

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~~SECRET~~



[REDACTED]

186

WHAT WAS HAPPENING THERE AND HOW WE MIGHT ESTABLISH CONTACTS
AND RELATIONSHIPS WHICH COULD LEAD TO IMPROVED RELATIONSHIPS
LATER ON.

[REDACTED]

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IN THE EARLY FALL OF 1985, BUD McFARLANE, AFTER ONE OF THE
WEEKLY MEETINGS WHICH HE AND HIS DEPUTY HAD WITH ME AND MY
DEPUTY, ASKED ME TO STAY BEHIND. HE TOLD ME ABOUT DISCUSSIONS

[REDACTED]

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I DISTINCTLY RECALL
McFARLANE EMPHASIZING THAT THE PURPOSE OF SUCH DISCUSSIONS
WOULD BE THE FUTURE RELATIONSHIPS WITH IRAN AND IRAN'S GREAT
IMPORTANCE IN THE EAST-WEST AND MIDDLE EAST-PERSIAN GULF
EQUATION.

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10-11

2
S E C R E T

CONFIDENTIAL DURING DAY, 25 NOVEMBER, I RETURNED FROM
CIA'S INVOLVEMENT IN THE OPERATION BEGAN ON FRIDAY,
22 NOVEMBER. AT THAT TIME LIEUTENANT COLONEL NORTH ASKED FOR
HELP IN FINDING A RELIABLE COMMERCIAL CARRIER THAT COULD CARRY
CARGO TO AN UNSPECIFIED MIDDLE EASTERN DESTINATION. HE WAS
PROVIDED THE NAME OF A CIA AIR CARGO PROPRIETARY IN EUROPE THAT
ROUTINELY ACCEPTS NORMAL COMMERCIAL BUSINESS. OUR OFFICERS
WERE TOLD BY NORTH THAT THE CARGO WAS TO BE OIL FIELD DRILLING
EQUIPMENT. OUR PROPRIETARY WAS SO INFORMED BY HEADQUARTERS.

OUR PROPRIETARY DID INDEED FLY TO TEL AVIV ON SATURDAY,
23 NOVEMBER. FROM THERE IT CARRIED A CARGO TO IRAN ON
24 NOVEMBER. TO THE BEST OF OUR KNOWLEDGE, NEITHER THE
ISRAELIS NOR THE IRANIANS KNEW THEY WERE DEALING WITH A CIA, ~~fact.~~
PROPRIETARY. IT WAS NOT UNTIL AFTER DELIVERY OF THE CARGO THAT
ANYONE IN CIA MANAGEMENT WAS AWARE THAT THE CARGO WAS ANYTHING
~~other than oil drilling equipment as had been represented to~~
THEM. THE AIRLINE WAS PAID AT THE NORMAL COMMERCIAL RATE WHICH
AMOUNTED TO ABOUT \$127,700.

I WAS OUT OF THE COUNTRY AT THE TIME. THE ACTING DCI, JOHN
McMAHON, DID NOT LEARN THAT A CIA PROPRIETARY FLIGHT FROM
ISRAEL TO TEHRAN HAD OCCURRED UNTIL MONDAY MORNING,
25 NOVEMBER. HE THEN IMMEDIATELY INFORMED THE CIA'S GENERAL
COUNSEL AND DIRECTED THAT WE WOULD NOT FACILITATE FURTHER
FLIGHTS INTO IRAN IN THE ABSENCE OF A PRESIDENTIAL FINDING.

3
SECRET



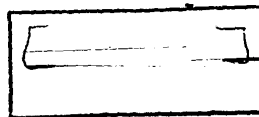
THE FOLLOWING DAY, 26 NOVEMBER, I RETURNED FROM OVERSEAS.
A DRAFT FINDING WAS PREPARED BY OUR GENERAL COUNSEL'S OFFICE
AND I SENT IT TO THE WHITE HOUSE FOR CONSIDERATION AND APPROVAL.

THIS EPISODE TOOK PLACE OVER A WEEKEND AND UNDER SOMEWHAT
UNUSUAL CIRCUMSTANCES. LTC NORTH HAD ALSO INFORMED US THAT AN
IMPORTANT MEETING WAS UNDERWAY IN GENEVA THAT WEEKEND INVOLVING
IRANIAN OFFICIALS AND THE POSSIBLE RELEASE OF AMERICAN
HOSTAGES. HE MADE IT CLEAR THAT HIS REQUEST FOR FLIGHT
ASSISTANCE WAS RELATED TO THIS MEETING. AT THE TIME, WE SAW NO
REASON TO STOP WHAT CLEARLY WAS AN ONGOING, SENSITIVE NSC
OPERATION BY DENYING THE USE OF OUR PROPRIETARY AIRLINE ON A
COMMERCIAL BASIS. *By 25 November, however, intercepted
communications and discussions with the flight crew had
convinced us the flight had carried arms. (Probably)*

THE DRAFT FINDING WE HAVE PROVIDED THE WHITE HOUSE WAS
DISCUSSED AND REVISED OVER THE NEXT FEW WEEKS. THE
PRESIDENTIAL FINDING FINALLY SIGNED ON 17 JANUARY 1986 DIRECTED
THE CIA TO PROVIDE SUPPORT FOR A PROGRAM AIMED AT

- (1) ESTABLISHING A MORE MODERATE GOVERNMENT IN IRAN *and seeking us
to encourage an end to the Iran-Iraq war which has been s*
- (2) OBTAINING INTELLIGENCE TO DETERMINE THE CURRENT IRANIAN *debilitate*
- GOVERNMENT'S INTENTIONS WITH RESPECT TO ITS NEIGHBORS AND WITH *to both*
- RESPECT TO TERRORIST ACTS, AND (3) FURTHERING THE RELEASE OF (2) *strengthen*
- AMERICAN HOSTAGES HELD IN BEIRUT AND PREVENTING FURTHER *Iran against*
- TERRORIST ACTS BY THESE GROUPS. *any Soviet
encroachment
from the n*

4
SECRET



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THE ACT ALSO STATES THAT THE INTELLIGENCE COMMITTEE
IT WENT ON TO SAY THAT THE USG WOULD PROVIDE MODERATE
ELEMENTS WITHIN AND WITHOUT THE GOVERNMENT OF IRAN WITH ARMS,
EQUIPMENT AND RELATED MATERIEL IN ORDER TO ENHANCE CREDIBILITY
OF THESE ELEMENTS IN THEIR EFFORTS TO ACHIEVE A MORE PRO-U.S.
GOVERNMENT IN IRAN BY DEMONSTRATING THEIR ABILITY TO OBTAIN
RESOURCES TO DEFEND THEIR COUNTRY. IT WAS PROVIDED THAT
SUPPORT WOULD BE DISCONTINUED IF THE U.S. GOVERNMENT LEARNS
THAT THESE ELEMENTS HAVE ABANDONED THEIR GOALS OF MODERATING
THEIR GOVERNMENT AND APPROPRIATED THE MATERIEL FOR PURPOSES
OTHER THAN THAT PROVIDED BY THIS FINDING.

IN THE FINDING, THE PRESIDENT DIRECTED THE CIA TO REFRAIN
FROM REPORTING THE FINDING TO THE CONGRESS UNTIL OTHERWISE
DIRECTED. THE FINDING WAS REVIEWED AND CONCURRED IN BY THE
ATTORNEY GENERAL.

AT THE TIME THE PRESIDENTIAL FINDING WAS BEING DRAFTED, THE
CIA'S OFFICE OF GENERAL COUNSEL PROVIDED THE LEGAL OPINION THAT
THE PRESIDENT HAS THE AUTHORITY TO WITHHOLD PRIOR NOTICE OF
OPERATIONS FROM THE CONGRESS. SECTION 501 OF THE NATIONAL
SECURITY ACT EXPRESSLY PROVIDES THAT NOTIFICATION OF
INTELLIGENCE ACTIVITIES TO THE CONGRESS SHALL BE PROVIDED "TO
THE EXTENT CONSISTENT WITH ALL APPLICABLE AUTHORITIES AND
DUTIES, INCLUDING THOSE CONFERRED BY THE CONSTITUTION."

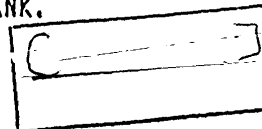
THE ACT ALSO STATES THAT THE INTELLIGENCE COMMITTEES BEYOND WITH INFORMED OF ACTIVITIES FOR WHICH NO PRIOR NOTICE WAS GIVEN AT THE APPROPRIATE TIME AS DETERMINED BY THE PRESIDENT. INTELLIGENCE COMMUNITY LAWYERS HAVE ALWAYS HELD THAT EXTRAORDINARY CIRCUMSTANCES COULD LEAD THE PRESIDENT TO CONCLUDE THAT NOTICE OF AN OPERATION SHOULD BE WITHHELD, IN WHOLE OR IN PART FOR A PERIOD DEPENDING ON THE CIRCUMSTANCES DETERMINED BY THE PRESIDENT. IN THIS INSTANCE, THE PRESIDENT DETERMINED THAT IF THE FACT OF THIS PROGRAM BECAME KNOWN, THOSE CARRYING OUT THE DIALOGUE (BOTH U.S. AND IRANIAN) AND THE AMERICAN HOSTAGES IN LEBANON WOULD BE PUT AT A GREATER RISK.

NOW LET ME GO OVER THE ACTIVITIES THAT WERE UNDERTAKEN BY THE CIA IN CARRYING OUT THE DIRECTIVES CONTAINED IN THE FINDING OF 17 JANUARY 1986. ON 5-7 FEBRUARY 1986, U.S. REPRESENTATIVES, A REPRESENTATIVE OF THE ISRAELI PRIME MINISTRY, AND A SENIOR-LEVEL IRANIAN OFFICIAL MET IN GERMANY. AT THIS MEETING, THE U.S. SIDE EMPHASIZED ITS DESIRE TO ENTER INTO A STRATEGIC DIALOGUE WITH THE IRANIAN SIDE. THE IRANIANS RAISED THEIR DESIRE TO RECEIVE U.S. WEAPONS. THE U.S. AGREED TO EXPLORE THIS POSSIBILITY. WORKING WITH THE ISRAELIS, THE FOLLOWING MECHANISM FOR TRANSFER OF THE WEAPONS WAS ESTABLISHED:

-- THE IRANIAN INTERMEDIARY WOULD DEPOSIT FUNDS IN AN ISRAELI ACCOUNT.

-- THE FUNDS WOULD THEN BE TRANSFERRED TO A STERILE U.S.-CONTROLLED ACCOUNT IN AN OVERSEAS BANK.

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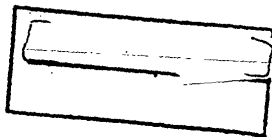
- USING THESE FUNDS, THE CIA WOULD WORK WITH THE ARMY LOGISTICS COMMAND TO OBTAIN THE MATERIEL.
- THE MATERIEL WOULD THEN BE TRANSPORTED TO ISRAEL FOR IRAN.

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

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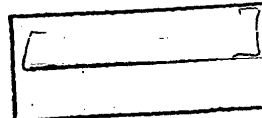
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THE DEPOSITS OF IRANIAN MONEY IN OUR SWISS ACCOUNTS WERE
TIMED TO COVER THE ESTIMATED COSTS OF PREPARATION AND DELIVERY
OF A TOTAL OF 2,008 TOW MISSILES AND A VARIETY OF HAWK MISSILE
EQUIPMENT. ALL OF THIS WAS ACQUIRED FROM THE DEPARTMENT OF
DEFENSE. NONE OF THE WEAPONS CAME FROM CIA STOCKS.

-- ON 15 FEBRUARY, WE DELIVERED 1,000 TOW MISSILES TO
KELLY AIR FORCE BASE FOR SHIPMENT. THESE WEAPONS HAD
BEEN PICKED UP AT REDSTONE ARSENAL, TRUCKED TO [REDACTED]
[REDACTED] FOR PACKING, THEN TRANSPORTED TO KELLY
WHERE WE SURRENDERED CONTROL. THIS SET OF WEAPONS --
TOGETHER WITH CHARGES FOR GROUND TRANSPORTATION,

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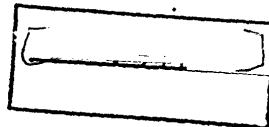
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SPREAD ACROSS ALL OF THE DOCUMENTS ARE SUCH
GUARDS, THE SERVICES OF DEPARTMENT OF DEFENSE FOCAL
POINT OFFICERS, AND PACKING -- IS ESTIMATED TO HAVE
COST \$3.5 MILLION.

-- ON 23 MAY, WE TRANSPORTED 508 TOW MISSILES AND HAWK
SPARE PARTS (INCLUDING A RADAR) TO KELLY AIR FORCE
BASED FOR SHIPMENT. THESE WEAPONS HAD BEEN TRUCKED
FROM REDSTONE ARSENAL TO KELLY AIR FORCE BASE [REDACTED]
[REDACTED] WHERE THEY WERE PREPARED FOR TRANSIT.
THIS SHIPMENT IS ESTIMATED TO COST \$6.1 MILLION,
INCLUDING THE COST OF THE WEAPONS, GROUND
TRANSPORTATION, THE SERVICES OF DEPARTMENT OF DEFENSE
FOCAL POINT OFFICERS, AND PACKING.

-- ON 6 NOVEMBER, WE PREPARED AND TRANSPORTED THE FINAL
SHIPMENT OF 500 TOW MISSILES AND A SMALL AMOUNT OF
MEDICAL SUPPLIES. AS WITH ALL OF THE OTHER SHIPMENTS,
THE WEAPONS WERE TRANSPORTED FROM REDSTONE TO KELLY AIR
FORCE BASE [REDACTED] THE MEDICAL
SUPPLIES WERE PURCHASED IN WASHINGTON AND SAN ANTONIO,
THEN PACKED FOR SHIPMENT FROM KELLY AIR FORCE BASE.
THE ESTIMATED COST OF THIS SHIPMENT IS \$1.9 MILLION.
IN THIS INSTANCE, AND IN
THIS INSTANCE ONLY, THE ESTIMATED COST ALSO INCLUDES
CHARGES FOR A U.S. AIR FORCE C-141 TO FLY THE SHIPMENT
FROM KELLY AIR FORCE BASE TO GERMANY AND THE COSTS OF A
PLANE OWNED BY A CIA PROPRIETARY, WHICH TOOK THE
SHIPMENT FROM GERMANY TO ISRAEL.

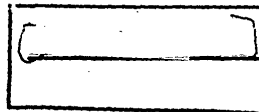


-- SPREAD ACROSS ALL OF THE SHIPMENTS ARE \$402,000 IN
OTHER EXPENSES TO PREPARE THE TOW MISSILES AND HAWK
RADAR. ALL BUT \$24,000 OF THESE ESTIMATED COSTS WERE
INCURRED BECAUSE U.S. ARMY REGULATIONS REQUIRE THAT TOW
MISSILES PRODUCED BEFORE A CERTAIN DATE MUST BE
RETROFITTED BEFORE THEY CAN BE WITHDRAWN FROM STOCKS.
THE REQUIRED CHANGES WERE MADE AT AN ARMY DEPOT IN
ANNISTON, ALABAMA.

CIA OBTAINED QUOTES FOR THE COSTS OF THE TOW MISSILES AND
HAWK EQUIPMENT THROUGH THE DEPARTMENT OF DEFENSE FOCAL POINT
SYSTEM. WE THEN ADDED ESTIMATES FOR OTHER ASSOCIATED
EXPENSES. TO DATE, WE HAVE ONLY PAID CIA'S COSTS FOR PREPARING
AND TRANSPORTING THE EQUIPMENT AND ACQUIRING THE MEDICAL
SUPPLIES (WHICH TOTAL AROUND \$50,000) AND A SINGLE BILLING FROM
DEPARTMENT OF DEFENSE FOR \$5.6 MILLION. ALL OTHER BILLING FROM
DEPARTMENT OF DEFENSE IS STILL PENDING. IF OUR ESTIMATES ARE
ACCURATE, SOME \$350,000 OF THE IRANIAN FUNDS WILL REMAIN AFTER
ALL BILLS ASSOCIATED WITH THE OPERATION ARE PAID. WE CLOSED
THE SWISS BANK ACCOUNT ASSOCIATED WITH THE IRANIAN OPERATION ON
25 NOVEMBER. AS OF THAT DATE, NO FUNDS ASSOCIATED WITH THE
IRANIAN OPERATION ARE HELD IN ANY CIA-CONTROLLED BANK ACCOUNT
IN SWITZERLAND.

IN ADDITION TO THE ACTIVITIES I JUST DESCRIBED, CIA ALSO
PROVIDED TO THE NSC INTELLIGENCE SUPPORT AND TRANSLATION AND

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SECRET



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ANALYTICAL SUPPORT, INCLUDING A CIA ANNUITANT WHO WAS SECONDED TO THE NSC PROJECT. OUR ANNUITANT AND ANOTHER OF OUR OFFICERS PARTICIPATED IN AROUND _____ MEETINGS BETWEEN THE UNITED STATES SIDE, THE INTERMEDIARIES, AND THE IRANIAN SIDE.

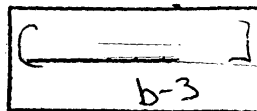
A TOTAL OF \$87,478 IN APPROPRIATED CIA FUNDS WERE USED IN SUPPORT OF THIS ACTIVITY.

- STAFF EXPENSES (CHIEFLY TRAVEL AND TDY COSTS) OF \$13,193.
- INDEPENDENT CONTRACTOR COSTS OF \$23,085 (FOR TRAVEL AND TDY EXPENSES OF THE RETIRED ANNUITANT WHO WAS INVOLVED IN THE OPERATION).
- OPERATIONAL SUPPORT COSTS OF \$11,015 FOR EXPENSES ASSOCIATED WITH MEETING IN EUROPE (INCLUDING HOTELS, MEALS, TELEPHONES, AND MISCELLANEOUS OPERATIONAL EXPENSES).
- USE OF AN AIRCRAFT OWNED BY A CIA PROPRIETARY (\$40,185) THAT CARRIED THE U.S. TEAM ON THE GERMANY-TO-ISRAEL LEG OF A TRIP TO IRAN.

SINCE ALL TRAVEL BY CIA OFFICIALS IS ROUTINELY CHARGED TO SUCH ACCOUNTS, TO DO OTHERWISE IN THE CASE OF THE TRIPS UNDERTAKEN DURING THIS PROGRAM WOULD HAVE COMPROMISED THE SECURITY OF THE ACTIVITIES.

11

S E C R E T



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[REDACTED]

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[REDACTED]

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[REDACTED]

b1 b3

[REDACTED]

[REDACTED]

12
~~SECRET~~

[REDACTED]
b-3

[REDACTED] b1 b3

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

when we began
LET ME CONCLUDE BY TELLING YOU WHAT WE DID ~~BEGIN TO LEARN~~ ^{be concerned} A
~~FEW MONTHS AGO~~ ABOUT POSSIBLE IRREGULARITIES IN THE OPERATION
AND WHAT WE DID ABOUT IT. ⁷FIRST, IT IS IMPORTANT TO UNDERSTAND
THAT THE NSC'S OPERATION HAD ENTERED A CRITICAL AND SENSITIVE
PHASE BY THIS FALL. TWO OF OUR HOSTAGES ALREADY HAD BEEN
RELEASED -- BENJAMIN WEIR IN SEPTEMBER 1985 AND FATHER JENCO IN
JULY OF THIS YEAR. IN SEPTEMBER, THE NSC WAS ABLE TO ESTABLISH
A NEW AND DIRECT CHANNEL TO MAJLES SPEAKER RAFSANJANI. ONCE WE
HAD DECIDED THE CHANNEL WAS RELIABLE, THE NSC PROCEEDED IN
HIGHLY SENSITIVE NEGOTIATIONS BOTH TO EXPAND OUR CONTACTS
INSIDE IRAN AND TO TRY TO SECURE THE RELEASE OF ^{Additional} AMERICAN
HOSTAGES IN LEBANON.

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SECRET

[REDACTED]
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even held in October
THE NSC'S FIRST MEETING WITH IRANIAN OFFICIALS INVOLVED IN
THE NEW CHANNEL OCCURRED IN LATE SEPTEMBER. THE IRANIANS WERE
INITIALLY CONCERNED OVER WHETHER THE U.S. WAS SERIOUS AND COULD
BE TRUSTED. *and continued through*
and of October, however
BY THE TIME THE TALKS WERE CONCLUDED, THE IRANIANS
not only but had actually
HAD PROPOSED AND NAMED THE FOUR IRANIAN MEMBERS OF A JOINT
COMMITTEE TO EXPLORE HOW TO OPEN RELATIONS BETWEEN THE TWO

ideally
COUNTRIES. THE AMERICAN HOSTAGES IN LEBANON WERE DISCUSSED AND
issue of
THE SENIOR IRANIAN OFFICIAL ATTENDING THIS MEETING AGREED TO
involved in this channel actually
TRAVEL TO LEBANON TO ASSESS WHETHER ADDITIONAL AMERICAN
it was possible to secure
HOSTAGES COULD BE FREED.
the release of additional American hostages.

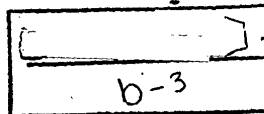
in late September

THE FIRST NEWSPAPER STORY ABOUT THE IRANIAN-U.S. MEETINGS
AND TALKS APPEARED IN A LEBANESE NEWSPAPER ON 3 NOVEMBER. ON
4 NOVEMBER, RAFSANJANI MADE A PUBLIC STATEMENT ABOUT MCFARLANE'S
It was just at this time that
VISIT TO TEHRAN. THAT VISIT WAS PART OF AN INTENSIVE EFFORT
was TAKING PLACE DURING THE LAST DAYS OF OCTOBER AND THE EARLY DAYS
OF NOVEMBER TO GET TWO OR THREE MORE AMERICAN HOSTAGES
RELEASED. DAVID JACOBSEN, IN FACT, WAS RELEASED ON 2 NOVEMBER
AS A RESULT OF THIS EFFORT.

During this sensitive period

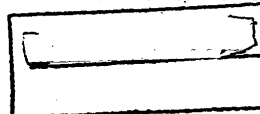
IN THE MIDDLE OF ALL THIS, I RECEIVED A TELEPHONE CALL FROM
ROY FURMARK ON 7 OCTOBER 1986. I HAD DONE SOME LEGAL WORK FOR
HIS COMPANY SOMETIME IN THE LATE 1970s AND I HAD NOT SEEN HIM

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SECRET



INFORMATION. I ADVISED HIM TO PREPARE A COMPREHENSIVE
SINCE THEN. FURMARK SAID ON THE PHONE THAT HE HAD SOMETHING
IMPORTANT THAT HE WANTED TO INFORM ME ABOUT. I HAD HIM COME
DOWN TO WASHINGTON PROMPTLY. IT QUICKLY EMERGED THAT HE KNEW
MORE ABOUT THE NSC PROJECT WITH IRAN THAN I DID. HE HAD BEEN
INVOLVED IN IT SINCE ~~LATE 1985 OR EARLY 1986~~ ^{the summer of 1985}. HIS ROLE WAS
THAT OF AN ADVISOR AND MEMBER OF THE STAFF OF ADNAN KHASHOGGI.
~~HE HAD WORKED WITH GORBANIFAR ALMOST FROM THE INCEPTION OF THAT~~ ^{Closely with Iranian ex-patriate}
GENTLEMAN'S EFFORT TO DEVELOP AN AMERICAN-IRANIAN RELATIONSHIP.
THE OCCASION OF HIS VISIT TO ME WAS HIS CONCERN THAT HE AND
KHASHOGGI HAD BROUGHT TOGETHER CANADIAN INVESTORS TO PUT UP
MILLIONS OF DOLLARS TO FINANCE THE ARMS SALES BY THE U.S. AND
IRAN. HE TOLD ME THAT THE CANADIAN INVESTORS WERE STILL OWED
SOMETHING LIKE \$10 MILLION AND WERE AROUSED BY THEIR INABILITY
TO COLLECT THE MONEY THEY HAD ADVANCED. HE SAID THEY INTENDED
TO BRING FORMAL LEGAL ACTION TO RECOVER THEIR MONEY. HE WAS
CONCERNED THAT THIS WOULD DESTROY PROSPECTS OF GETTING
ADDITIONAL HOSTAGES OUT. THIS WAS ALL ENTIRELY NEW TO ME. I
THANKED HIM FOR THE INFORMATION AND SAID THAT I WOULD CHECK
INTO THE SITUATION.

THAT SAME AFTERNOON, I CALLED ADMIRAL POINDEXTER AND
REPORTED THIS ALARMING INFORMATION TO HIM. HE SEEMED SURPRISED
AND CLEARLY CONCERNED. IT WAS, IN FACT, OBVIOUS TO BOTH OF US
THAT THIS INFORMATION REPRESENTED A MAJOR RISK TO THE
OPERATIONAL SECURITY OF THE NSC-IRANIAN INITIATIVE. ALTHOUGH
NEITHER OF US AT THE TIME WAS SURE ABOUT THE ACCURACY OF THE



REITERATED OUR CONCERN THAT THE NSC PROJECT WAS A
INFORMATION, I ADVISED HIM TO PREPARE A COMPREHENSIVE STATEMENT
FULLY COVERING ALL ASPECTS OF THE IRANIAN INITIATIVE AND TO
CONSULT WITH THE WHITE HOUSE LAWYERS ON HOW TO HANDLE IT.

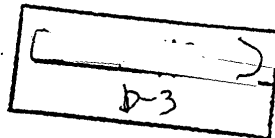
I INFORMED DEPUTY DIRECTOR BOB GATES AND CHARLES ALLEN,
CIA'S NATIONAL INTELLIGENCE OFFICER FOR COUNTERTERRORISM, WHO
HAD PROVIDED INTELLIGENCE SUPPORT TO THE NSC'S IRAN INITIATIVE
FROM THE BEGINNING. I ASKED ALLEN TO PREPARE A COMPREHENSIVE
MEMORANDUM LAYING OUT OUR CONCERNS AT THAT POINT ABOUT THE IRAN
PROGRAM AND ARRANGED FOR HIM TO GO UP TO NEW YORK TO INQUIRE
FURTHER INTO THE LARGE AMOUNT OF INFORMATION WHICH FURMARK HAD
ACCUMULATED. THE NEXT DAY I WROTE A MEMORANDUM TO THE DIRECTOR
OF OUR NEAR EAST DIVISION REPORTING BRIEFLY THE INFORMATION
RECEIVED FROM FURMARK.

ON 9 OCTOBER, THE DDCI AND I MET WITH LIEUTENANT COLONEL
NORTH WHO HAD COME OUT TO BRIEF US ON RECENT PROJECTS. ^{Because we were concerned by how the Iranian progr.} WE
POINTEDLY ASKED COLONEL NORTH IF HE HAD ANY KNOWLEDGE OF CIA ^{may have coming with American activities}
INVOLVEMENT IN THIRD PARTY SUPPORT EFFORTS TO THE CONTRAS.
COLONEL NORTH REPLIED THAT, BASED ON HIS KNOWLEDGE OF THE
PRIVATE FINANCIAL EFFORTS UNDERWAY, CIA WAS COMPLETELY CLEAN ON
THE QUESTION OF ANY CONTACT WITH THOSE INVOLVED.

ON 15 OCTOBER, THE DDCI AND I MET WITH ADMIRAL POINDEXTER
IN HIS OFFICE. WE GAVE HIM THE MEMORANDUM I HAD ASKED CHARLIE
ALLEN TO PREPARE AND SAT WITH HIM WHILE HE READ IT. WE

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SECRET



REITERATED OUR CONCERN THAT THE NSC PROJECT WAS ABOUT TO SPIN OUT OF CONTROL. I SUGGESTED AGAIN THAT HE CONSULT WHITE HOUSE COUNSEL.

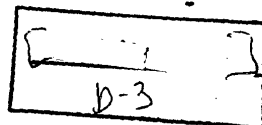
ADMIRAL POINDEXTER EXPRESSED APPRECIATION AND AGREED TO CONSIDER WHAT TO DO. HE SAID THAT HE HAD CONSULTED HIS OWN NSC COUNSEL, PAUL THOMPSON, ABOUT THE LEGAL ASPECTS OF THE MATTER. HE INDICATED THAT HE WANTED TO TAKE A LITTLE MORE TIME BEFORE FOLLOWING OUR RECOMMENDATIONS IN ORDER TO SEE WHETHER ONGOING DISCUSSIONS WITH THE IRANIANS COULD BE MAINTAINED AND PARTICULARLY WHETHER IT MIGHT BE POSSIBLE TO GET ONE OR TWO ADDITIONAL HOSTAGES OUT.

IN TRYING TO DECIDE HOW MUCH WEIGHT TO PLACE ON THE INFORMATION THAT BEGAN TO SURFACE IN OCTOBER, AND EXACTLY WHAT TO DO ABOUT IT, WE HAD TO BALANCE A NUMBER OF FACTORS. FIRST *we had only the very serious indications that we had* OF ALL, THE INFORMATION REGARDING DIVERSION OF FUNDS, WHILE *about funds in the Iranian government which may have been diverted; if* DEEPLY DISTURBING, WAS EXTREMELY DIFFICULT FOR US TO INTERPRET AND WEIGH -- ESPECIALLY SINCE WE HAD NO ^{overall} KNOWLEDGE OF THE FINANCIAL MECHANICS OF THE NSC OPERATION. THE DETAILED NATURE OF THE INFORMATION FROM MR. FURMARK HAD CONSIDERABLE IMPACT. BUT IT WAS STILL LITTLE MORE THAN HEARSAY, SINCE HE WAS SIMPLY PASSING ON SPECULATION HE HAD HEARD FROM THE IRANIAN MIDDLEMAN INVOLVED. IT WAS CERTAINLY, IN OUR OPINION, FAR TOO WEAK TO TAKE TO THE JUSTICE DEPARTMENT.

*Have
mention
this
A
vigor*

17

SECRET



IN FACT, WE WERE ALL TAKEN BY SURPRISE BY THE ATTORNEY
GENERAL'S STATEMENT OF 25 NOVEMBER TO THE EFFECT THAT HE HAD
UNCOVERED GOOD EVIDENCE THAT IRANIAN MONEY HAD BEEN DIVERTED.
HIS STATEMENT MUST BE BASED ON INFORMATION THAT IS STILL
UNAVAILABLE TO US.

IN CONCLUSION, I BELIEVE THAT WE DID ALL THAT COULD
RESPONSIBLY BE DONE GIVEN THE NATURE OF THE INFORMATION WITH
WHICH WE WERE DEALING AND THE EXTREMELY CRITICAL PASS IN WHICH
WE FOUND OURSELVES IN OUR EFFORTS TO FREE THE HOSTAGES.

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~~SECRET~~

